California Actuarial Advisory Panel Model Actuarial Funding Policies
Summary of Practice Categories – Version 2 – for June 5, 2012 discussion

This summary does not include all the policy alternatives discussed in the CAAP Model Funding Policies document

Category	Actuarial Cost Method	Asset Smoothing Method	UAAL Amortization
Model Practices	Entry Age cost method Level percent of pay “Funding to retirement age” Individually based Normal Cost Normal Cost based on current benefit structure (“replacement life” Entry Age)	Smooth actuarial gain or loss on market value (MVA) Fixed smoothing periods Maximum MVA corridors 5 years, 50%/150% corridor 7 years, 60%/140% corridor 10 years, 70%/130% corridor Combine smoothing layers only to avoid “tail volatility”	Layered fixed amortization periods by source of UAAL Level percent of pay amortization Amortization periods: Active or Inactive plan amendments: Demographic or up to 15 years Experience Gain/loss: 15 to 20 Assumption / method changes: 15 to 25 Early Retirement Incentives: 5 or less Surplus: 30 years
Acceptable Practices	Projected Unit Credit method Aggregate cost method, with Entry Age based disclosures Frozen Initial Liability method, with Entry Age Based disclosures Entry Age method with “Funding to Decrement” or with Normal Cost based on composite projected benefit	Five year (or shorter) smoothing with no corridor Rolling smoothing periods with model corridors plus additional analysis	Level dollar fixed period layered amortization with model amortization periods Rolling amortization of a single gain/loss layer with period that avoids negative amortization, with model periods for other sources of UAAL
Acceptable but Not Generally Recommended Practices	Aggregate or Frozen Initial Liability without Entry Age based disclosures	15 years, 80%/120% corridor	Layered fixed amortization periods up to 25 years for all sources of UAAL Rolling amortization of a single gain/loss layer up to 20 years Rolling amortization of assumption/method changes with period that avoids negative amortization 30 year fixed amortization of method change
Non-recommended Practices	Entry Age with Normal Cost based on open tier (”Ultimate” Entry Age)	Longer than 5 year smoothing with no corridor	Layered fixed amortization periods up to 30 years Rolling amortization of a single gain/loss layer up to 25 years Rolling amortization of entire UAAL (including plan changes) up to 20 years Single fixed amortization period, with periodic restarts
Unacceptable Practices	Traditional Unit Credit for pay related plans	Longer than 15 year smoothing	Layered fixed amortization periods longer than 30 years Rolling amortization of a single gain/loss layer l. t. 25 years Rolling amortization of entire UAAL longer than 20 years

Alternative ongoing treatments of rolling (open period) UAAL amortization

All rolling amortizations as described assume model amortization periods for other sources of UAAL

Category	Ongoing – Alternative A	Ongoing – Alternative B		
Model Practices	None	None		
Acceptable Practices	Rolling amortization of a single gain/loss layer with period that avoids negative amortization	Rolling amortization of a single gain/loss layer with period that avoids negative amortization		
Acceptable but Not Generally Recommended Practices	Rolling amortization of a single gain/loss layer up to 20 years	Rolling amortization of a single gain/loss layer up to 20 years **Rolling amortization of assumption changes so as to avoid negative amortization**		
Non-recommended Practices	Rolling amortization of single gain/loss layer up to 25 years **Rolling amortization of assumption changes so as to avoid negative amortization [or: up to 20 years]**	Rolling amortization of single gain/loss layer up to 25 years Rolling amortization of entire UAAL (including assumption and plan changes) up to 20 years		
Unacceptable Practices	Rolling amortization of single gain/loss layer longer than 25 years Rolling amortization of entire UAAL (including assumption and plan changes) longer than 20 years	Rolling amortization of single gain/loss layer longer than 25 years Rolling amortization of entire UAAL (including assumption and plan changes) longer than 20 years		

Alternative transitional treatments of rolling (open period) UAAL amortization

Transitional refers to treatment of UAAL at date of transition for plans currently using rolling amortization for entire UAAL

For transitional single layer UAAL, amounts for gains/losses, plan or assumptions would require an estimated allocation of current single layer UAAL

Category	Transitional – Alternative A	Transitional – Alternative B		Transitional – Alternative C
Model Practices	Fixed amortization of a transitional single UAAL layer with period that avoids negative amortization	Fixed amortization of a transitional single UAAL layer with period that avoids negative amortization		Fixed amortization of a transitional single UAAL layer with period that avoids negative amortization
Acceptable Practices	Fixed amortization of a transitional single UAAL layer up to 20 years			
Acceptable but Not Generally Recommended Practices	Fixed amortization of a transitional single UAAL layer using current rolling period	Rolling amortization of estimated transitional gain/loss and assumption change layer) up to 20 years Fixed amortization of remaining transitional UAAL layer (i.e., estimated plan changes) so as to avoid negative amortization		Rolling amortization of entire transitional UAAL (including plan changes) so as to avoid negative amortization
Non-recommended Practices	Rolling amortization of a transitional single UAAL layer up to 20 years	Rolling amortization of entire transitional UAAL up to 20 years		Rolling amortization of entire transitional UAAL up to 20 years
Unacceptable Practices	Rolling amortization of a transitional single UAAL layer longer than 20 years	Rolling amortization of entire transitional UAAL longer than 20 years		Rolling amortization of entire transitional UAAL longer than 20 years